The Jack of All Trades in China in the 21st Century

Discussion for
Serial Entrepreneurship in China
By Guiying Laura Wu
Types of Entrepreneurs

• Novice entrepreneurs:
  • who launch a business for the first time

• Habitual entrepreneurs
  • Serial entrepreneurs:
    • who launch business *sequentially*
  • Portfolio entrepreneurs:
    • who run multiple businesses *concurrently*
The Jack of All Trades

Serial entrepreneur: Wang Xing

Portfolio entrepreneur: Lei Jun

• An old saying: A Jack of all trades is master of none.
• But could China in the 21st century be the cradle for a Jack of all trades?
• Under what conditions could a Jack of all trades also be master of all?
Contribution of This Paper

• Document important facts on habitual entrepreneurship in China
• Develop simple yet effective model to theorize serial entrepreneurship
• Present empirical evidences to motivate portfolio entrepreneurship
• Investigate how local business environment affects entrepreneurship
Facts on Habitual Entrepreneurship in China

• 1) 1st serial entrepreneur has higher TFP and more capital than novice
• 2) 2nd serial entrepreneur has lower TFP and more capital than 1st
• 3) 2nd serial entrepreneur has higher TFP and more capital than novice
• 4) Increasing fraction of habitual entrepreneurship over time

• 5) Serial entrepreneurship has significantly/slightly higher entry/exit rate than novice entrepreneurship
• 6) There are more habitual entrepreneurship in know-how or human capital intensive industries
• 7) Habitual entrepreneurship are more likely to locate in same prefecture and different sector
Theorizing Serial Entrepreneurship

• Two periods where a firm lasts for only one period

• Two state variables:
  • TFP: positive serial correlation across two periods
  • Net worth: start with 0 and accumulated from 1st to 2nd period

• Ex-ante identical potential entrepreneurs who
  • Are risk-neutral
  • May borrow or save
  • Consumer after 2nd period
  • Pay fixed operating cost for each entry
  • Pay output and capital taxes

• Model generates implications consistent with facts 1-4
Motivating Portfolio Entrepreneurship

• Probability of having another firm in industry $j$ is higher if $j$ is
  • downstream integrated with $i$
  • upstream integrated with $i$
  • output complementary with $i$
  • input complementary with $i$
  • negatively correlated with $i$ in ROA
The Effects of Local Business Environment

• Findings from exploring regional heterogeneities in terms of
  • entry barriers
  • output and capital distortions
  • political connections

• 1) Prefectures with higher entry barriers and higher distortions are associated with less entrepreneurship

• 2) Prefectures with higher entry barriers and higher distortions are associated with less habitual entrepreneurship

• 3) The fraction of habitual entrepreneurship that are CCP members is higher in prefectures with higher entry barriers and higher distortions
Comments: Definition

• Literature:
  • distinguishes serial from portfolio entrepreneurship

• This paper:
  • Uses serial entrepreneurship to refer both
    • “Individual who is or has been the entrepreneur of more than one firm”

• Questions:
  • Would the mechanism behind serial and portfolio be different?
  • Would the underlying policy implications be different?
Comments: Data

• Literature:
  • Data on portfolio entrepreneurs are scarcer, but they seem to account for between 10 and 20% of entrepreneurs (Astebro and Bernhardt, 2005)

• This paper:
  • “85% of SE establish their second firm concurrently with the first firm”

• Questions:
  • If concurrently, how to define first and second firm?
  • 85% seems really high in contrast to 10-20%, why?
  • If 85%, the majority is portfolio entrepreneurship, then model, implications?
Comments: Model – Nature vs Nurture

• Literature -- Nature:
  • Extensive literature on occupational choice between novice entrepreneurship and paid employment
  • A few recent model on occupational choice between serial entrepreneurship and novice entrepreneurship
  • Emphasize on entrepreneur ability and willingness to take risk

• This paper -- Nurture:
  • Ex-ante identical potential entrepreneurs
  • Differences driven by TFP, entry barriers and distortions

• Questions:
  • Could there be an interesting interaction between nature and nurture?
Comments: Motivation – Synergy and Risk

• Nice empirical evidences on the determents of 2nd firm:
  • Downstream and upstream integration -- synergy
  • Input and output complementarity -- synergy
  • Risk diversification -- risk

• Questions:
  • Why not model the motivation of portfolio entrepreneurship formally?
  • Why not model the synergy: $E(r_{ij}) > E(r_i) + E(r_j)$?
  • Is risk diversification really a valid motivation under complete market?
  • Maybe it explains the low significance on the risk term in your regression?
Comments: Business Environment

• Nice empirical evidences on environment and selection:
  • 1) Prefectures with higher entry barriers and higher distortions are associated with less entrepreneurship
  • 2) Prefectures with higher entry barriers and higher distortions are associated with less habitual entrepreneurship

• Questions:
  • Theory Part: could there be a formal model to analyze the effects of barriers and distortions on entrepreneurship and habitual entrepreneurship and therefore aggregate TFP? I see a lot of inspirations from Melitz (2003).
  • Empirical Part: the measured business environment is rarely exogenous. Is there any event/shock to explore to make the correlation causal?
Conclusion

• A very thought-provoking paper
• A very pertinent and important research topic
• A very clean and powerful model
• Two comprehensive and unique dataset
• Five “serial scholars” on Chinese economy
• Many interesting findings
• Great potential to further explore for many top Fives